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Coffee

Annual

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Report Highlights:
Plummeting worldwide price of coffee continues to take a toll on El Salvador's coffee production. The 2002/03 harvest is expected to only reach 1.3 million 60 kg. bags green bean equivalent (GBE), down from an average 2.3 million bag crop in the 90's. Family remittances of approximately $2 billion from Salvadorans residing in the U.S. are picking up the slack helping the economy stay afloat. Coffee exports in 2003/04 are expected to only generate approximately $ 95 million in foreign exchange. The Government of El Salvador (GOES) continues to invest in loan guarantees to assist farmers in the maintenance and harvesting of the coffee crop. USDA is working with Ministry of Agriculture to diversify traditional agriculture.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

El Salvador's 2002/2003 coffee harvest is expected to be approximately 13.2 percent lower than previously reported. New data provided by the Salvadoran Coffee Council (CSC) reveals that the 2002/03 harvest is expected to reach 1.3 million bags. Reduced investment due to low international prices continues to be the main cause for the extended production down slide. Production for the 2003/04 crop is forecast to remain at the same level as in 2002/03. Final output for the 2003/04 crop will ultimately depend on a reversal of historically low prices and increased input investment by already indebted farmers.

Coffee exports in 2002/03 are expected to reach 1.22 million bags. In 2003/04 exports are forecast at the same level as in 2003/04. Stocks are forecast at approximately 2,000 bags in 2003/04. Local financial institutions continue to require farmers to have a planned coffee sales program in order to have access to loans. This requirement will force farmers to forward contract their coffee and avoid speculation. In MY 2002, exports to the U.S. are expected to reach 490,300 sixty kg. bags. The U.S. is the main export destination for Salvadoran coffee accounting for 40 percent of MY 2002/03 exports through April 2003. Other important markets are Germany, England, Belgium, France, Korea, Canada and Japan.

The CSC continues to monitor exports through the use of export registrations permits. The Government of El Salvador (GOES) has provided a financial assistance package to the coffee sector which includes a new Emergency Fund of 25 dollars per hundredweight (cwt) for the average production of the last three crops. The total package reaches $ 488 million and has been used to re-structure overdue loans. The GOES has also guaranteed through the Multi-Sectoral Investment Bank (BMI) a loan of $ 30.00 per hundredweight (cwt) to cover for routine maintenance and harvesting during the 2003/04 crop. Coffee is still the most important source of employment in the rural areas. With coffee harvest alone providing approximately 130,000 jobs in rural areas. The U.S. Department of Agriculture (USDA) is assisting the GOES in an effort to diversify plantation agriculture into value-added produce production. Coffee is no longer the major source of export revenues in El Salvador. In 2002, coffee only accounted for 4 percent of total export earnings. The maquila industry (cut and sew operations) is the major source of export revenues. Family remittances from Salvadorans residing in the U.S. in the order of $ 2 billion in 2002 are also helping the country's economy remain afloat. Coffee exports in 2003/04 are expected to generate approximately $ 95 million in foreign exchange.

PSD Table						
Country	El Salvador					
Commodity	Coffee, Green				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		10/2001		10/2002		10/2003
Area Planted	178	178	178	178	0	177
Area Harvested	166	166	166	166	0	165
Bearing Trees	548	548	548	548	0	545
Non-Bearing Trees	54	54	54	54	0	54
TOTAL Tree Population	602	602	602	602	0	599
Beginning Stocks	2	2	2	2	2	2
Arabica Production	1610	1610	1500	1302	0	1300
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
TOTAL Production	1610	1610	1500	1302	0	1300
Bean Imports	28	28	26	25	0	24
Roast & Ground Imports	15	15	16	6	0	6
Soluble Imports	27	27	28	30	0	32
TOTAL Imports	70	70	70	61	0	62
TOTAL SUPPLY	1682	1682	1572	1365	2	1364
Bean Exports	1527	1527	1425	1192	0	1189
Roast & Ground Exports	1	1	1	1	0	1
Soluble Exports	8	8	8	32	0	34
TOTAL Exports	1536	1536	1434	1225	0	1224
Rst,Ground Dom. Consum	126	126	118	110	0	109
Soluble Dom. Consum.	18	18	18	28	0	29
TOTAL Dom. Consumption	144	144	136	138	0	138
Ending Stocks	2	2	2	2	0	2
TOTAL DISTRIBUTION	1682	1682	1572	1365	0	1364

Production

The 2002/03 production number has been revised downward from the last report to 1.3 million bags. Continued depressed coffee prices forcing farmers to abandon their farms is the main reason for the lower output. This trend is expected to continue into the 2003/04 harvest keeping production levels at similar levels as those posted in 2002/03. So far, weather conditions have been favorable for coffee providing adequate humidity during coffee blossoming.

Lack of profitability in the coffee sector has tremendously reduced investment at the farm level. However, the GOES has recently announced that it will guarantee loans to the coffee sector for the upcoming season. Also, in a move to try to lower production costs, the GOES has recently announced that farmers can import inputs up to $ 1,000.00 duty free. Last season, most farmers were only able to fertilize once with Ammonium Sulfate due to extremely high costs for other more effective fertilizers. It is still too early to estimate the impact of this new government measure on production.

The reduction of investment on coffee areas also poses an environmental threat for El Salvador. Coffee trees are the main source of forests in the country. El Salvador is already at a critical point and considered one of the most deforested countries in the western hemisphere. Also, coffee provides most of the tree cover in the watersheds and is the natural habitat for many wild species.

Bearing tree population continues to diminish due to urbanization in low altitude coffee areas, decreased cultural practices and lack of replacement due to low coffee prices. A $ 100 million loan offered by Taiwan to renovate old coffee areas is expected to be used to diversify into other more profitable non-traditional crops (Refer to policy for further information).

Searching for added value, coffee farmers are turning to gourmet, specialty and organic production. Recently, the CSC organized a promotional event called the "Cup of Excellence" to try to introduce fine Salvadoran coffee into the specialties market (Refer to trade for further information).

Consumption

Based on new consumption information gathered by the CSC, the forecast for local coffee consumption for 2002/03 has been changed to 138,000 bags, 6,000 bags less than in 2001/02. Even though local coffee prices have decreased, local consumers have not taken advantage due to a deterioration in purchasing power and a sluggish performance posted by the Salvadoran economy in 2001 and 2002. Nicaragua continues to be by far the largest supplier of imported soluble coffee to the Salvadoran market. Soluble imports from Nicaragua in CY2002 reached 21,673 sixty kg. bags green bean equivalent (GBE). Brazil, Guatemala and Mexico are also important suppliers of roast and ground coffee. U.S. ground and roasted coffee could benefit if import duties are lowered as a result of recent Central American Free Trade Agreement (CAFTA) negotiations. U.S. coffee exporters should take advantage of a booming supermarket industry and an expanding food service sector lead by growth in tourism industry. In CY2002 the U.S. exported to El Salvador 1,797 sixty kg. bags GBE of roasted and ground coffee. Nestle has bought one of the largest Salvadoran coffee processing plants and is actively promoting its products. Consumption in 2003/04 is expected to remain at the same level as in 2002/03.

Increasing domestic consumption is one of the areas that the GOES through the Coffee Council would like to emphasize in order to bring back some profitability to the sector. El Salvador, as is the case in most coffee producing nations, only consumes a small percentage of total production. However, the GOES lacks the resources to fund a program to promote local consumption. Private investment in coffee shops located in popular shopping malls are starting to pave the way for increased local consumption.

Trade

Coffee exports for 2002/03 are estimated at 1.22 million bags. This number is much lower than previously reported mainly due to a smaller crop. In 2003/04 coffee exports are also forecast at 1.22 million bags.

Lower prices, escalating debt and lack of profitability continue to be the main reasons for the sluggish performance of the coffee sector. Local prices paid by coffee exporters to producers are not sufficient to cover production costs. Additionally, the rate of investment on the part of local producers continues to diminish and in some cases disappear deeply affecting rural employment.

Exports to the U.S. in MY 2002 are expected to account for approximately 40 percent of total exports. In MY 2002, exports to the U.S. are expected to reach 490,300 sixty kg. bags. Germany is the second major destination for Salvadoran coffee, accounting for 27 percent of total exports. The U.S. continues to be a large importer of CS coffee which is used by roasters for mixing. Belgium, Japan and England continue to be active buyers from this region.

Gourmet and Specialty coffee exports have become very popular. The main reason is the premium prices granted by coffee buyers for this type of coffee. Salvadoran coffee exporters have created an association called Itzalco, which is in charge of gourmet coffee promotion throughout specialty coffee fairs in the U.S. and Europe. This association received a grant from the EU to develop non-traditional exports in El Salvador. However, exports of gourmet coffee are still very small and only account for approximately one percent of total exports. Production of organic coffee has also been promoted in El Salvador. The Cooperative League of the U.S. (CLUSA) has been assisting a group of coffee coops to develop a market for this type of coffee. The main market for Salvadoran organic coffee is Japan.

The CSC in association with CLUSA and USAID have sponsored a promotional event called the "Cup of Excellence". Local and international coffee connoisseurs were invited to judge the event. After extensive rounds of coffee tasting, only five farms were selected to participate in an electronic auction that is expected to provide excellent prices for those specialty coffees selected.

Ecologically friendly coffee planting are also on the rise in El Salvador. Salvanatura, a local environmental NGO, is actively promoting a program called ECO-OK. Under this program, coffee farms which are harvested in shaded areas are rewarded for oxygen release and preservation of the local environment. This is still a pilot program and it will be a while before results can be assessed.

Local prices paid by exporters for strictly-high-grown (SHG) coffee during March 2003, averaged $ 24.57. El Salvador is expected to receive approximately $ 95 million in foreign exchange from the sale of the 2002/03 harvest.

Honduras has changed policy to capture Honduran coffee, nevertheless because of poor rural road infrastructure coffee still filters to El Salvador. In 2002/03 approximately 24,650 bags are expected to be illegally imported from Honduras. Included in this trade is some low quality roasted coffee that has found a niche market in the

Northeastern region of El Salvador. Uncontrolled border crossings in this area of the country make it easy for contraband trade between Honduras and El Salvador.

In CY2002, El Salvador imported 35,925 sixty kg. bags GBE of soluble, roasted and ground coffee. Major suppliers were in order of importance: Nicaragua, Brazil, Guatemala, U.S. and Mexico. Imports of soluble, roasted and ground coffee in CY2003 are expected to be similar to CY2002.

Export Trade Matrix			
Country	El Salvador		
Commodity	Coffee, Green		
Time period	MY	Units:	60 Kg. Bags
Exports for:	2002		2003
U.S.	490,300	U.S.	490,000
Others		Others	
Germany	333,200		333,000
Belgium	85,750		85,500
Japan	73,500		73,250
France	64,925		64,900
Korea	39,200		39,150
Canada	30,625		30,600
England	30,630		30,610
Italy	26,950		26,900
Total for Others	684780		683910
Others not Listed	49950		49975
Grand Total	1225030		1223885

Import Trade Matrix			
Country	El Salvador		
Commodity	Coffee, Green		
Time period	CY	Units:	60 Kg. Bags
Imports for:	2002		2003
U.S.	1797	U.S.	1850
Others		Others	
Honduras	24650		24300
Nicaragua	21,673		23000
Brazil	4652		35005
Guatemala	3741		3900
Mexico	665		450
Total for Others	55381		55150
Others not Listed	3500		4525
Grand Total	60678		61525

Policy

The GOES continues to offer a 6.0 percent drawback program for non-traditional exports. This drawback is used by the GOES as an incentive for exporters that export their products outside the Central American region. The GOES through the Ministry of Economy provides six percent of the taxes incurred in the export transaction back to the exporters. El Salvador has negotiated this program under the World Trade Organization (WTO) and has authorization to continue until 2005. Soluble and roasted coffee have been included in the list of products that can access this drawback. Green coffee is excluded from the list of products authorized to access this benefit.

The GOES has recently finalized a plan to re-finance overdue loans and repair coffee mills damaged by the recent earthquakes. Total program costs reached 488 million dollars and is expected to provide relief to the coffee sector. The BMI was in charge of implementing this financial package to the sector. Under the program (FICAFE), coffee farmers had access to 250 million dollars at a 6.33 percent interest rate with 20 years payback term and a 5 year grace period to help them re-finance overdue loans. Another 50 million dollars were granted as supplemental loans to help cover normal agricultural practices and inputs. Due to low coffee prices, financial institutions have drastically reduced the resources available for coffee production and in most cases only limited to farmers with positive cash flows. The GOES has also included 100 million dollars to renovate old coffee plantations. According to the GOES, approximately 55,000 hectares will be renovated through this program and 27,000 new jobs will be created in the agricultural sector. This particular program will provide 15 years payback, 5 years grace and 9 percent interest rate. This aid package also included 80 million dollars to repair coffee mills damaged by the January and February 2001 earthquakes. Finally, an eight million dollar loan has been set aside to promote transition to non-traditional crops among coffee farmers.

The GOES has also implemented a new Emergency Fund much like the one that was offered to the sector back in 1992. This fund offered 25.0 dollars per hundredweight at 11 percent interest rate and 7 year payback term. The GOES believes that this fund will help coffee farmers that are already above their credit limits and need fresh capital to survive the crisis caused by low prices.

In addition, the GOES has decided to provide a loan guarantee of $ 30 per hundredweight to cover 2003/04 coffee maintenance and harvesting costs through the Agricultural Guarantee Program (PROGARA). Farmers would contract the loan with a local bank and the GOES would guarantee up to $ 15 per hundredweight if the farmer is not able to payback after he has sold his harvest and would transfer this debt to the FICAFE program. The GOES has also expressed that this assistance will be offered for the 2004/05 season. GOES also announced a 2 year grace period on interest and capital for loans contracted under the FICAFE program. This government measure is expected to provide breathing room for extremely indebted farmers.

A $ 100 million loan offered by Taiwan has been stuck at the National Assembly for over a year. Opposition congressman are reluctant to vote favorably for the loan until the GOES assures that the interest rate offered to the farmer reaches 8 percent. Approximately $ 40.8 million would be directed to provide technical assistance for renovation of old coffee plantations and the rest would be directed to diversify production into other more lucrative crops.

The GOES continues to promote a transition from plantation agriculture into more profitable non-traditional crops. The MAG has created many programs to assist traditional farmers in produce production. GOES believes there is opportunity in production of tropical fruits and ethnic spices for export to the Salvadoran community that resides in the U.S. USDA and GOES are working jointly on a program to assist local producers with admissibility of various products into the U.S. market. In addition, P.L. 480 Title I funds are being used by MAG to cover programs for diversification of agriculture, animal health and also aquiculture production.